VZCZCXRO7217
PP RUEHMA RUEHPA
DE RUEHDK #2571/01 2961133
ZNR UUUUU ZZH
P 231133Z OCT 06
FM AMEMBASSY DAKAR
TO RUEHC/SECSTATE WASHDC PRIORITY 6695
INFO RUCPDOC/USDOC WASHDC PRIORITY
RUEHZK/ECOWAS COLLECTIVE PRIORITY
RUEHBJ/AMEMBASSY BEIJING PRIORITY 0095
RUEHLM/AMEMBASSY COLOMBO PRIORITY 0028
RUEHRB/AMEMBASSY RABAT PRIORITY 0791
RUEHOT/AMEMBASSY OTTAWA PRIORITY 0117
RUEHON/AMCONSUL TORONTO PRIORITY 0007
RUEHLMC/MCC WASHDC PRIORITY

UNCLAS SECTION 01 OF 04 DAKAR 002571

SIPDIS

SIPDIS
SENSITIVE

STATE FOR EB/TPP/ABT - THOMAS LERSTEN, AF/EPS AND AF/W
STATE PLEASE PASS TO USTR - EYLIGER
STATE ALSO PLS PASS TO EXIMBANK
USDOC FOR ITA/OTEXA MARIA D'ANDREA

E.O. 12958: N/A
TAGS: ETRD ECON KTEX EINV AGOA SG
SUBJECT: SENEGAL: TEXTILES AND APPAREL SECTOR: UPDATED STATISTICS
AND PROJECTION OF FUTURE COMPETITIVENESS

REF: A. STATE 138090

¶B. DAKAR 01970
¶C. STATE 131825

DAKAR 00002571 001.2 OF 004

Sensitive but unclassified; contains proprietary information from a non-U.S., but Mission-valuable company which is not public.

SUMMARY AND OVERVIEW

¶1. (U) In response to Ref A request, post provides the following information on Senegal's textile and apparel industry. This expands upon information provided in Ref B.

¶2. (SBU) Senegal's textile industry produces limited volumes of domestic cloth and finished apparel. Despite being highlighted by senior GOS officials as a strategic sector for the country's Accelerated Growth Strategy, Senegal's apparel and textile producers are inefficient and potential growth is hampered by a range of obstacles: obsolete equipment, poor management, overstaffing, erratic and expensive electricity supply, limited and expensive credit, uncertain commercial real-estate laws and rigid labor laws. The GOS views the sector as a vital component of its accelerated growth policy. Senegal's Agency for Investment and Export Promotion (APIX) is pursuing incentives and strategies to attract foreign direct investment in the sector and to organize the apparel sub-sector. AGOA preferences remain key to current and future textile/apparel exports from Senegal. A recent, significant Canadian investment in a Senegalese firm is designed to take advantage of AGOA access to the U.S. market. Senegal's textile/apparel sector would likely be uncompetitive for the foreseeable future should AGOA's third-country fabric provisions end in 2007.

¶3. (U) Many of Senegal textile and apparel factories are in financial difficulty and in need of investment for new equipment. In recent months, five factories have suspended their operations, at least temporarily, while they search for additional financing. A few, more competitive operators are in the process of expanding their productions lines. Work uniforms, medical "scrubs," t-shirts, sportswear and towels are the most prominent products for Senegal's industrial apparel and textile sector. Almost all fabrics for mass

production are imported from Asia. The majority of higher end wax cotton fabric is imported from Europe and Cote d'Ivoire. Much of this fabric is transformed locally with dye and print in traditional African designs for sale in domestic and regional markets. END SUMMARY AND OVERVIEW.

NEW INVESTMENT TARGETING AGOA

¶4. (U) Dakar-based INDOSEN, a Senegalese-Indian-Moroccan joint venture (40 percent owned by Nouvelle Societe Textile du Senegal - NSTS), has long been one of Senegal's largest apparel manufacturers. The company's main factory is located in Louga, approximately 100 miles north of Dakar. The company spins, weaves, knits, dyes, finishes, prints and manufactures work wear. Its equipment includes 18,000 spindles, 160 rapier looms, 12 circular and 2 flat knitting machines, 190 sewing machines, 140 specialized sewing machines (non-digital) and 120 cut sewing machines. INDOSEN's current production capacity is 5 million pieces per year.

¶5. (SBU) On September 28, Stafford Textiles, Ltd, a Toronto-based company, announced its formal partnership with INDOSEN, with the goal of exporting apparel to the U.S. under AGOA, and also to Canada. According to the company's owner, Mick Stafford, his firm is the "front end" partner who will provide fabric, mostly poly-cotton blends, to INDOSEN, secure large volume buyers in Canada and the U.S. (including Cabela's, Dick's, Nike, Billabong, etc,) and provide technical assistance in the beginning of the production. Providing technical expertise is not a usual practice of Stafford, but the company's Director of Operations plans on spending 4-5 months helping update the Louga factory. In addition, three technicians from a Stafford factory in Sri Lanka will be permanently relocated to Louga to control quality.

¶6. (SBU) INDOSEN is the "back end" partner who will use Stafford fabric to produce a weekly volume of 10,000 units of medicals "scrubs," 5,000 polo shirts, 20,000 factory work shirts, and 15,000 pairs of work pants. The first container of fabric is expected to arrive in Dakar by the end of October. In outlining his company's

plans, Stafford expressed his confidence in INDOSEN's production capacity and technical competency. Stafford has invested USD 3 million to increase INDOSEN's production capacity by providing 200 new sewing machines from the U.S. as well as CAM/CAD design equipment. Stafford foresees transferring more textile manufacturing equipment in the future including a "vat-dye" line to manufacture the highly specialized poly-cotton fabric.

¶7. (SBU) With this added investment, INDOSEN plans to employ 448 sewers in 2007, 805 in 2008 and 963 in 2009. Estimated sales projections for the next three next years are USD 8 million in 2007, USD 15 million in 2008 and USD 20 million in 2009. (COMMENT: While INDOSEN represents the "high-end" of Senegal's apparel/textile production, it has a mixed record of meeting its supply deadlines, and is currently in default on an ExImBank-guaranteed loan estimated at USD 3 million. END COMMENT.)

IMPORTANCE OF THIRD-COUNTRY FABRIC PROVISION

¶8. (SBU) Senegalese textile and apparel producers and investors remained deeply concerned about the negative impacts that would result if AGOA's third-country fabric provision isn't extended. Stafford's leadership stated that its partnership with INDOSEN would collapse, and its new investment in Senegal likely fail if they are unable to import specialized Asian fabrics while maintaining AGOA preferences. According to Stafford, "the most dangerous and frightening" part of the venture is the possible loss of the third country provision. In Stafford's case, it takes the Chinese factory 18 months to produce this special fabric - a poly-cotton blend that can be industrially washed 50 times per year with steel balls in a 2 percent chlorine bath without changing color. Stafford's projected garment sales from INDOSEN are based on utilizing this particular fabric.

¶9. (SBU) INDOSEN, and probably all Senegalese apparel manufacturers, rely on the duty differential from AGOA preferences to remain even marginally competitive with Asian producers. According to Stafford, not only does Senegal, and most of Africa, remain weak on productivity, but Asian governments' subsidies for

their domestic industries (he claims at 15 percent), make African producers uncompetitive on price. Citing textile industry lobbyists in the U.S., Stafford expects congressional action on the third country fabric provision by April 2007.

¶10. (SBU) On the positive side for Senegal, Dakar is only 10 days from NY via maritime transit and only 8 hours from NY via direct, non-stop commercial flights. Maritime transit from Asia to NY is 30 days and flights can take 20 hours. (NOTE: In early December, Delta Airlines is planning to begin new daily non-stop return service between Atlanta and Dakar, with continuing service to Johannesburg. END NOTE.) Acknowledging that Senegal needs to become a fabric producer, Stafford said that in the future his company hopes to import specialized fabric weaving machines from China to enhance INDOSEN's production, but would need additional financial support to do so.

TRENDS IN 2006

¶11. (SBU) Many local producers have lowered their price due to heightened international competition, and, in general, manufacturers have received fewer orders than in years past. There have been lay-offs in the sector and some smaller factories have closed in the past year. (COMMENT: 1996-1998 was a high-point for textile-related employment in Senegal with more than 7,000 workers in the sector. END COMMENT.) Export prospects for local manufacturers are not affected by U.S. and E.U restrictions on certain exports of textiles and apparel from China. Senegal is not implementing any measure to reduce growth of imports of Chinese textile and apparel products. Increased global competition has not affected local labor conditions which remain rigid and constraining. Though Senegalese companies continue to make efforts to modernize in order to enter the U.S. market under AGOA, Senegal has yet to create a significant new export textile/apparel market via the U.S. High production costs and rigid labor laws will continue to hinder Senegalese competitiveness for the coming year and likely much longer.

OTHER SIGNIFICANT PRODUCERS

¶12. (U) Senegal's other important textile and apparel producers include:

-- "La Nouvelle Societe Textile Senegalaise" (NSTS/FTT): Partial owner of INDOSEN. It produces large-gauge thread and unbleached fabric; has 148 Sulzer looms (110 to 130 inch), 12,000 spindles and 648 open-end spinning RU 14 rotors.

-- EGA CONFECTION: a manufacturer of uniforms, "scrubs" and men's wear. It has modern, digital equipment with a production capacity of 1,200 pieces per day. The company imports fabric from Morocco and Asia, and has 22 full-time and 89 part-time employees.

-- ETS SOLU: manufactures sportswear using 75 non-digital machines and one electric embroidery machine. Its monthly production capacity is 30,000 pieces, and its fabric originates in Asia. The company has 48 full-time and 15 part-time employees.

-- Nouvelle Sotiba: a printing company that uses non-digital, printing and dying equipment to produce a monthly output of approximately one million meters of "fancy cloth," which is mostly sold in the local market. It imports cotton from India and has 300 full-time employees.

-- COSETEX: a printing and dying company with two lines of non-digital machinery. The company produces one million meters of "fancy cloth" per month. It imports cloth from India, Benin, Nigeria, and Mali for domestic sales and for exports to West Africa, Europe, and the U.S (in 2001 and 2002). The company employs 80.

-- "Societe de Developpement des Fibres Textiles" (SODEFITEX): a ginning/cotton fiber company with ISO 9001 certification. The company has five factories in eastern Senegal, and produces annually a total of 56,000 tons of cotton fiber. It sells in Senegal and exports to Asia, South America and Europe. It sources raw cotton mostly from Senegal and employs 460 full-time and 4,000 part-time

persons.

-- "Cotonnier du Cap Vert" (CCV): Merged with the former SOSEFIL. Activities including ginning, spinning, weaving, knitting, dying, and manufacturing to produce approximately 1,200 tons total of thread, dishtowels, and t-shirts per year; equipment includes 28 non-digital sewing machines; 5 knitting machines; and 3 cotton spinning machines. It sources cotton in Senegal, uses its own cloth for t-shirts and dishtowels, sells in Senegal, exports to the sub-region, and has 250-300 staff.

TRADE DATA

¶13. (U) Senegal's Department of External Trade and the National Agency of Statistics at the Ministry of Finance provided the following data:

-- 2005 Total textile and apparel imports: USD 60 million, a 7 percent increase from 2004 (USD 56 million);

-- 2006 Total (mid-year) imports of textile:
USD 22 million, a 3 percent decrease from the 2005 midyear figures of USD 32 million;

-- 2005 Total textile exports: USD 29 million;

-- 2006 Total mid-year textile exports: USD 1.5 million, a slight decrease of 0.6 percent from the midyear 2005;

-- 2005 Total textile imports from the U.S.: USD 13 million, compared to USD 7.5 million in 2004, an increase of 7 percent;

-- 2005 Total textile exports to the U.S.: USD 3 million, compared to USD 2.2 million in 2004, an increase of 3 percent (midyear 2006 figures are not available);

-- 2006 number of companies in textile industry: 24;

-- 2006 approximate number of employees in textile industry: 2,000;

-- 2006 estimated number of tailors and artisans in the clothing sector: 100,000.

COMMENT

¶14. (SBU) It is widely recognized, by industry insiders, investors and GOS officials that Senegal needs to move quickly towards producing its own fabric. Senegalese trade and investment officials routinely present a vision of a vertically-integrated supply chain that includes Senegal's cotton fields, enhanced ginning capacity, fabric production, and transformation. To date, there has been little actual movement in policy or improved business climate to encourage a private-sector-driven realization of this vision.

¶15. (SBU) We are hopeful that the confluence of Stafford's timely partnership with INDOSEN, and enhanced transport linkages to the U.S. as a result of the Delta Airlines' new route, will create a new momentum for Senegal's potential as a textile and apparel exporter. However, we are still waiting for the convening of the first meeting Senegal's AGOA Steering Committee, announced by the Minister of Commerce in August. END COMMENT.

JACOBS